

Message Text

CONFIDENTIAL

PAGE 01 REYKJA 01803 231453Z
ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 CIAE-00 DODE-00 PM-05 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 STR-05 CEA-01
ABF-01 FS-01 DOE-12 SOE-01 /117 W
-----003374 232144Z /63

R 231355Z DEC 77
FM AMEMBASSY REYKJAVIK
TO SECSTATE WASHDC 7982
INFO AMEMBASSY OSLO
AMEMBASSY COPENHAGEN
AMEMBASSY STOCKHOLM
AMEMBASSY HELSINKI
AMEMBASSY BONN
AMEMBASSY TOKYO

C O N F I D E N T I A L REYKJAVIK 1803

E.O. 11652: GDS
TAGS: PGOV, EFIN, IC
SUBJECT: DECLINE IN U.S. DOLLAR: PRIME MINISTER'S COMMENTS

1. DURING COURTESY CALL I PAID ON HIM DECEMBER 22, PRIME MINISTER GEIR HALLGRIMSSON EXPRESSED CONCERN OVER CONTINUING DECLINE IN VALUE OF U.S. DOLLAR. PRIME MINISTER STRESSED SUBJECT IS IMPORTANT TO ICELAND BECAUSE OF MAJOR CONTRIBUTION ICELANDIC EXPORTS TO U.S. MAKE TO COUNTRY'S TOTAL FOREIGN EXCHANGE HOLDINGS. (U.S. IS LARGEST SINGLE MARKET FOR ICELANDIC EXPORTS, TAKING ABOUT 30 PERCENT OF TOTAL.) PRIME MINISTER IMPLIED DECLINE OF DOLLAR WAS ALSO OF INCREASING CONCERN TO OTHER NORDIC GOVERNMENTS.

2. IN REPLY I TOLD THE PRIME MINISTER THAT CURRENT WEAKNESS OF DOLLAR SHOULD NOT BE EXAGGERATED. MOST SERIOUS PROBLEM WAS WITH RESPECT TO YEN BECAUSE OF MASSIVE TRADE SURPLUS JAPAN HAD
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 REYKJA 01803 231453Z

BUILD UP AGAINST U.S. ANOTHER PROBLEM AREA WAS FRG MARK. GOVERNMENTS OF BOTH JAPAN AND FRG DESPITE US URGINS HAD LAGGED IN RELATING THEIR ECONOMIES AT SAME TIME THAT U.S. HAD MAINTAINED GENERALLY UNRESTRICTIVE TRADE POLICY IN ORDER TO STIMULATE INTERNATIONAL ECONOMIC RECOVERY. PAYMENTS IMBALANCES HAD RESULTED WHOSE SERIOUSNESS WE HAD DRAWN TO ATTENTION OF JAPANESE AND FRG WITH

RECOMMENDATIONS THAT THEY TAKE PROMPT CORRECTIVE ACTION
LEST ADMINISTRATION BE FORCED INTO PROTECTIONIST TRADE
POLICIES BY INCREASINGLY RESTIVE CONGRESS. I ALSO NOTED
THAT DOLLAR HAD REMAINED GENERALLY STRONG AGAINST
BASKET OF OTHER CURRENCIES, AND THAT IF STRONG
ENERGY BILL WERE ENACTED THIRD PROBLEM AREA OF ADMINIS-
TRATION'S FOREIGN TRADE CONCERNS WOULD BE BROUGHT UNDER
CONTROL.

3. I CONCLUDED BY NOTING THAT U.S. ECONOMY REMAINS
BASICALLY STRONG WITH GOOD GROWTH RATE, INFLATION THAT
HAS THUS FAR STAYED WITHIN BOUNDS, AND WITH HIGHEST
NUMBER OF EMPLOYED IN ITS HISTORY. WE WERE IN SHORT, IN
SOUND HEALTH, DESPITE PUBLICITY GIVEN TO DOLLAR MOVE-
MENTS AGAINST YEN AND MARK. WE WERE ALSO CONTINUING
TO BEHAVE RESPONSIBLY TOWARD OUR TRADING PARTNERS
BUT IF THEY DID NOT DO SAME U.S. COULD BE PUSHED TOWARD
MEASURES WHICH WOULD HAVE MAJOR ADVERSE EFFECTS ON
ENTIRE INTERNATIONAL ECONOMY. PRIME MINISTER LISTENED
CAREFULLY AND SOBERLY AGREED.

4. COMMENT: THIS WAS FIRST TIME PRIME MINISTER HAS
RAISED INTERNATIONAL TRADE MATTERS WITH ME. FACT THAT
SENIOR PROGRESSIVE PARTY MEMBER OF COALITION, MINISTER
OF JUSTICE OLAFUR JOHANNESSON, ALSO DID SO DURING
COURTESY CALL I PAID ON HIM EARLIER IN SAME DAY INDI-
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 REYKJA 01803 231453Z

CATES DOLLAR MAY HAVE BEEN SUBJECT OF RECENT CABINET
DISCUSSION. AS DEPARTMENT AWARE, MOST SERIOUS ICELANDIC
ECONOMIC PROBLEM IS INFLATION WHICH FOR 1978-IS
PROJECTED AROUND 31 PERCENT. IF TO THIS GOVERNMENT
WERE TO ADD EROSION OF IMPORT VALUE OF ITS FOREIGN
EXCHANGE RESERVES, IT WOULD BE IN TIGHT SITUATION
VIS-A-VIS ELECTORATE WHICH IT MUST FACE BY JUNE.
BLAKE

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DOLLAR, PRIME MINISTER
Control Number: n/a
Copy: SINGLE
Sent Date: 23-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977REYKJA01803
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770480-0394
Format: TEL
From: REYKJAVIK
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771221/aaaaarox.tel
Line Count: 102
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 27bdcafd-c188-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 138771
Secure: OPEN
Status: NATIVE
Subject: DECLINE IN U.S. DOLLAR: PRIME MINISTER'S COMMENTS
TAGS: PGOV, EFIN, IC
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/27bdcafd-c188-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009